



May 9, 2003

Dear Representative:

On behalf of the members of the American Shareholders Association (ASA), I am writing to express our full support of H.R. 2, the *Jobs and Growth Tax Reconciliation Act of 2003* as reported out of the Ways and Means Committee this past Tuesday. Without question, this legislation will improve economic growth, create jobs, and boost a three-year lagging stock market.

Since March 2000, the stock market has lost nearly \$7 trillion of net worth as a result of the tech bubble collapse, the horrific attacks on September 11th, corporate scandals, and lack of profits over the last two years. H.R. 2 will provide the necessary incentives to restart America's economy and hence stock market growth. Specifically, the proposal would help investors by:

Slashing the Double Taxation of Dividends: Currently profits are taxed once as corporate income and again when the profits are redistributed to shareholders. This double taxation has reduced the rate of return of dividends and has led corporations to stop issuing dividends. In fact, since 1978 the number of firms issuing dividends has declined 45 percent. However, dividends are a true sign of a company's health and with less dividends being issued, company's pursued growth stocks, which are based on future earnings and can be manipulated a la Enron. Moreover, since debt is deductible and dividends are not, and many companies have an incentive to issue debt, which leads to bankruptcies during economic downturns. With these perverse incentives in place, shareholders have been placed with significant risk (stemming from current tax policy) and have been disenfranchised from the companies they own since managers reinvest money rather than return the money to shareholders. As such, the H.R. will reverse these perverse incentives and fix major corporate accountability issues, readjust optimal debt-equity ratios, re-empower shareholders, and boost the stock market 6-20 percent.

Cutting the Capital Gains Tax: The evidence overwhelmingly demonstrates that a cut in the capital gains tax will boost economic growth. Since 1980, the capital gains tax rate has been changed three times (resulting in four different periods). Increases in capital gains tax rates were followed closely by a falloff in Gross Domestic Product (GDP), the measure of overall economic activity. Similarly, capital gains cuts were followed directly by often-dramatic increases in economic growth. Furthermore, this proposal will boost revenues to the federal government. After Congress cut the capital gains tax in 1978, revenue increased by 29%. After President Reagan cut the tax in 1981, revenue increased by 45%. When Congress increased the rates in 1986, revenue dropped by 35%. But when the capital gains rate was cut again in 1997, federal revenues increased by 12%.

Accelerating Income Tax Relief: H.R. 2 will accelerate scheduled rate reductions from the 2001 tax cut. These tax cuts have already been approved and there is absolutely no justification for not voting to push forward economic growth by accelerating these provisions. Moreover, approximately 85 percent of small businesses file their tax returns as individuals so this tax will not only boost after tax income of individuals it will significantly increase small business investment and job creation.

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Expensing and Depreciation: H.R. 2 allows for small business to increase their expensing from \$25,000 to \$75,000 and indexing that limit to inflation. Raising the small business-expensing limit will put capital back into small businesses so they can invest more, which raises the productivity of the workers. Greater productivity increases employment, raises the wages of workers, lowers prices to consumers, and ultimately raises the standard of living for all Americans. Moreover, this proposal also allows all businesses to depreciate 50 percent of equipment purchases. This proposal is particularly important given that the current economic slowdown has been unusually characterized by a business investment slowdown. Raising this limit will provide the correct incentives to get ALL businesses purchasing, especially small to mid-size capital-intensive manufacturers.

As you can see, this proposal correctly targets the imbalances in the US economy and will significantly boost economic growth in America. The importance of the stock market has grown increasingly important to the US economy over the past decade and these broad ranging proposals combined will work to replenish the lost net worth of investors so that critical investments are made in the economy. And a rising economy benefits all Americans, not just investors.

Given these facts, on behalf of American investors, I urge you to vote yes on H.R. 2 to ensure the American economy is put back on the right track.

ASA rate this vote in our annual congressional rating and may double rate the vote given its significant importance.

Thank you for your support and commitment to American shareholders and I hope that you will support these provisions to grow the American economy.

Sincerely,

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Executive Director

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